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IN THE

Supreme Court of the United States

JACK C. BENUN, JAZZ PRODUCTS LLC, POLYTECH ENTERPRISE LTD, and POLYTECH (SHENZHEN) CAMERA CO. LTD.,

Petitioners,

—v.—

FUJIFILM CORPORATION,

Respondent.

ON PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

REPLY BRIEF IN SUPPORT OF PETITION FOR A WRIT OF CERTIORARI

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Pursuant to Supreme Court Rule 15.6, Petitioners[1] reply to new points in Respondent Fujifilm Corporation's Brief in Opposition to the Petition for a Writ of Certiorari.

ARGUMENT

Petitioners ask this Court to address whether a patentee may use the patent law to control resale or disposition of a product that embodies its patents, which has been the subject of a patentee-authorized sale outside the United States. The specific issue is whether the rule of exhaustion announced in *Quanta Computer, Inc. v. LG Electronics, Inc.*, 553 U.S. 617, 638 (2008)—"The authorized sale of an article that substantially embodies a patent exhausts the patent holder's rights and prevents the patent holder from invoking patent law to control postsale use of the article"—is subject to an unstated territorial restriction.

Notwithstanding *Quanta*'s broad pronouncement, the Federal Circuit ruled below that U.S. patent rights are strictly territorial, and are never exhausted by a sale abroad, even when by the patentee or with its authorization. Pet. App. 8a–9a.

Respondent admits (Br. in Opp. 3) that this Court has never addressed whether authorized foreign sales exhaust patent rights. This enhances Petitioners' request that this Court address the question. Absent resolution, international traders cannot understand their rights to import and to sell goods

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[1] Fujifilm incorrectly states that "the only petitioner believed to exist at this time is Benun," Br. in Opp, at ii. Polytech Enterprise Ltd. is an active Hong Kong corporation.

purchased abroad from patentees, licensees, or their successors-in-title.

Fujifilm claims this Court need not address international patent exhaustion because (1) "U.S. patent law is domestic in nature," Br. in Opp. 3–15; and (2) *Quanta* did not "expand" patent exhaustion to reach foreign sales, *id.* at 15–23. Neither argument diminishes the need to address the international patent exhaustion issue.

I. WHETHER THE PATENT LAW IS "DOMESTIC" IN NATURE DOES NOT RESOLVE THE QUESTION OF THE EXTENT OF RIGHTS GRANTED THEREUNDER.

Fujifilm argues (Br. in Opp. 3–15) that this Court need not consider patent exhaustion by authorized foreign sales because the patent law is "domestic in nature." However, the "domestic" nature of patent law resolves nothing.

"United States patent, copyright and trademark law have all been traditionally tempered by the doctrine of exhaustion, also called the doctrine of first sale." Margreth Barrett, *The United States' Doctrine of Exhaustion: Parallel Imports of Patented Goods*, 27 N. Ky. L. Rev. 911, 911 (2000) (footnotes omitted). The exhaustion rule "provides that once an intellectual property owner releases or authorizes others to release goods bearing or embodying the intellectual property into the stream of commerce, it exhausts its right to control the goods; purchasers and their successors in title are free to use and resell the goods without seeking the intellectual property owner's authorization or paying a further royalty." *Id.* at 912.

The trademark and copyright laws are equally as "domestic" as the patent law; they also operate only within the United States. However, this Court *has* considered whether the rights under these laws extend in a protected article beyond its authorized sale abroad. This Court recognized a qualified rule of international trademark exhaustion by virtue of foreign sales, *K Mart Corp. v. Cartier, Inc.*, 486 U.S. 281 (1988), and a similar rule for copyrighted works, *Quality King Distribs., Inc. v. L'Anza Research Int'l,*

Inc., 523 U.S. 135 (1998). In *Costco Wholesale Corp. v. Omega, S.A.*, No. 08-1423 (U.S. argued Nov. 8, 2010), the Court is considering whether authorized foreign sales of works produced abroad exhaust copyrights therein.

Merely characterizing patent law as "domestic" does not address when the rights granted thereunder may be exercised, or when they have been exhausted. Having addressed international exhaustion of trademarks and copyrights, this Court now should do so for patents.

The exhaustion doctrine serves policies undergirding U.S. intellectual property laws. First, it honors the disfavor of restraints on alienation, which impair free markets. *Sebastian Int'l, Inc. v. Consumer Contacts (PTY) Ltd.*, 847 F.2d 1093, 1096 (3d Cir. 1988); *see also* H.R. Rep. No. 98-987, at 2 (1984) ("[T]he first sale doctrine has its roots in the English common law rule against restraints on alienation of property."). Second, it recognizes that intellectual property rights, granted to promote public welfare, should incentivize inventors to serve the public interest by producing a greater selection of goods for public consumption. *See, e.g.*, *Graham v. John Deere Co. of Kan. City*, 383 U.S. 1, 9 (1966). The exhaustion doctrine contemplates that giving an intellectual property owner exclusive control over the *first* sale of protected goods will create sufficient incentive to invest in creative undertakings; extending rights to control goods beyond their first sale is unnecessary to this purpose, and likely to interfere with other important public goals, such as marketplace competition and free movement of goods. *See, e.g.*, *United States v. Masonite Corp.*, 316 U.S. 265,

277–80 (1942); *Keeler v. Standard Folding Bed Co.*, 157 U.S. 659, 665–67 (1895)

Historically, U.S. courts followed a rule of international patent exhaustion, qualified by a patentee's ability to contract out of it. *E.g.*, *Curtiss Aeroplane & Motor Corp. v. United Aircraft Eng'g Corp.*, 266 F. 71, (2d Cir. 1920); *Dickerson v. Matheson*, 57 F. 524, 527 (2d Cir. 1893) ("A purchaser in a foreign country, of an article patented in that country and also in the United States, from the owner of each patent, or from a licensee under each patent, who purchases without any restrictions upon the extent of his use or power of sale, acquires an unrestricted ownership in the article, and can use or sell it in this country." (citing, *inter alia*, *Bloomer v. Millinger*, 68 U.S. (1 Wall.) 340 (1864), and *Mitchell v. Hawley*, 83 U.S. (16 Wall.) 544 (1873))); *Kabushiki Kaisha Hattori Seiko v. Refac Tech. Dev. Corp.*, 690 F. Supp. 1339, 1342 (S.D.N.Y. 1988) (explaining that patent exhaustion "applies to an authorized first sale abroad by a patentee or licensee who also has the right to sell in the United States," and that thereafter the patentee "is barred from preventing resale in the United States or from collecting a royalty when the foreign customer resells the article" in the United States); *Holiday v. Mattheson*, 24 F. 185 (C.C.S.D.N.Y. 1885).

The Federal Circuit first addressed international exhaustion in *Jazz Photo Corp. v. United States International Trade Commission*, 264 F.3d 1094 (Fed. Cir. 2001), *cert. denied*, 536 U.S. 950 (2002), where, "[w]ith a few strokes of the pen," one commentator noted, the Federal Circuit "appears to have abandoned this [prior] body of law in favor of [a] strict territorial exhaustion doctrine . . . ." James B.

Kobak, Jr., *Exhaustion of Intellectual Property Rights and International Trade*, 5 Global Econ. J., no. 1, art. 5, at 6 (2005), http://www.bepress.com/gej/vol5/iss1/5/. That decision was based on a misreading of *Boesch v. Graff*, 133 U.S. 697 (1890). Barrett, *supra*, 27 N. Ky. L. Rev. at 944–45; *see* Pet. 17–20.

Whether U.S. patent law is governed by a strictly territorial or an international exhaustion rule has sparked public debate requiring resolution by this Court. *See, e.g.*, Harold C. Wegner, *International Patent Exhaustion: Whither the Supreme Court?* (May 27, 2010), http://grayonclaims.com/storage/InternationalExhaustionMay27.pdf; Derek Dahlgren, *Why Fujifilm Did Not End the Patent Exhaustion Debate*, Law360 (Oct. 29, 2010), http://www.law360.com/web/articles/202640.

Fujifilm's lament (Br. in Opp. 8–12) that its authorized foreign sales did not confer payment specifically tied to its U.S. patent misstates the purpose of patent law, which "has never undertaken to guarantee any particular level of return on patented articles. It primarily seeks to make it more feasible for the patentee to exploit the invention by preventing others from free riding on its research and development investment. There may be no market at all for the patented invention. The Patent Act does not intervene to provide one." Barrett, 27 N. Ky. L. Rev. at 965. Nor does Fujifilm's argument (Br. in Opp. 9–10) that it only exercises its patent rights through a U.S. sale have merit, for U.S. law grants patentees the right not to sell their patented inventions but only to prevent others from doing so. *See* 35 U.S.C. § 154(a) (2002). A patentee may achieve the benefit of the patent law without making any U.S. sale, as clearly established in *Quanta*,

where the Court—in commenting on *United States v. Univis Lens Co.*, 316 U.S. 241 (1942)—indicated that an article may "practice" a U.S. patent when manufactured, sold, or used abroad. *Quanta*, *supra*, 553 U.S. at 627–28.

Here, Fujifilm sold or authorized for sale abroad cameras embodying its patents, and received a bargained-for purchase price or royalty. Fujifilm's worldwide licensing agreements *included the U.S. patents-in-suit* among the rights licensed. Fujifilm also exercised its power to exclude unauthorized persons from selling these cameras in the United States. This power to exclude conferred a benefit, even had Fujifilm sold none of these cameras in the United States.[2]

Fujifilm or its licensees sold every camera, without contractual restrictions, and Fujifilm received bargained-for financial compensation. Should the patent law countenance Fujifilm's exclusion of these lawfully-made, lawfully-sold cameras from the United States, or allow Fujifilm to compel a second royalty from Petitioners? Does the law permit a patentee to sell the same horse twice?

Quanta gives no indication that Fujifilm's patent rights extend beyond the first authorized sale. "The authorized sale of an article that substantially embodies a patent" is what "exhausts the patent holder's rights." *Quanta*, 553 U.S. at 637. Such an authorized sale occurred in this case, regardless of where title to the patented goods passed.[3]

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[2] Fujifilm erroneously contends (Br. in Opp. 10–11), that the benefit from a patent right must be financial payment for the sale of a patented product.

[3] Fujifilm's international price-discrimination concerns are belied by the fact that Fujifilm charged its licensees the same

Fujifilm contends that a mere authorized sale is insufficient to trigger patent exhaustion, as such sale must be coupled with "the patent owner's express or implied authorization to re-sell the product in the United States." Br. in Opp. 10. This has never been the law. Fujifilm's view contradicts this Court's statement in *Quanta* that an "authorized sale," not consent to resale or importation, triggers exhaustion.

Fujifilm authorized and controlled the "first sale" of every camera. Fujifilm seeks now to control the *second* and subsequent *resales* thereof to revive a patent right surrendered upon the authorized first sale. *Quanta* expressly rejected this interpretation of patent law since it "would violate the longstanding principle that, when a patented item is 'once lawfully made and sold, there is no restriction on [its] *use* to be implied for the benefit of the patentee.'" 553 U.S. at 630 (emphasis and alteration in original) (quoting *Adams v. Burke*, 84 U.S. (17 Wall.) 453, 457 (1873)). This is precisely the type of "end run" around the exhaustion doctrine that *Quanta* refused to countenance.

A patentee's consent to resale has never been an element of exhaustion. The purchase of a product from one authorized to sell it has universally been held to give the purchaser "an absolute property [right] in such articles, unrestricted in time or place." *Keeler*, 157 U.S. at 666.

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royalty regardless of where they sold cameras. Moreover, Fujifilm's theory of patent exhaustion would support the relocation abroad of facilities producing patented goods, since the patentee could more easily control goods produced and first-sold abroad than domestic goods. This undermines the patent law's goal of promoting domestic industry.

Exhaustion hardly requires a patentee's consent to importation.[4] Fujifilm consented to Petitioners' re-importation of *no* camera, even one that had undergone an authorized U.S. "first sale," but did not prevail thereon. The exhaustion rule, to work sensibly and predictably, must be guided by objective criteria, such as the existence of an authorized "first sale," rather than, as Fujifilm suggests, a judicial search for a patentee's "express or implied authorization to re-sell the product in the United States," Br. in Opp. 10.

A patentee may contract around the exhaustion rule to control the resale, disposition, or use of patented goods, but its remedies for unauthorized importation would sound in contract rather than patent law, and would require communication of the contractual limitation to affected parties. Where the exhaustion rule is concerned, the policies undergird-

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[4] The Uruguay Round Agreements Act (URAA), Pub. L. No. 103-465, §§ 532–533, 108 Stat. 4809, 4983-90 (1994), amended 35 U.S.C. §§ 154 and 271 to confer on patent owners the right to import patented goods. This implemented Article 28 of the so-called "TRIPS" Agreement addressing international intellectual property rights during the GATT Uruguay Round. *See* Agreement on Trade-Related Aspects of Intellectual Property Rights ("TRIPS"), Apr. 15, 1994, 1869 U.N.T.S. 401. However, TRIPS itself states that "nothing in this Agreement shall be used to address the issue of the exhaustion of intellectual property rights." *Id.* art. 6. The U.S. statement accompanying the URAA notes that TRIPS "does not require any change in current United States law or practice with respect to parallel importation of goods that are the subject of intellectual property rights." Message from the President of the United States Transmitting the Uruguay Round Trade Agreements, H.R. Doc. No. 103-316, at 990–91 (1994). Neither party herein has suggested that the statutory amendment TRIPS requires should influence the issue in the Petition.

ing patent law forbid hidden restraints on alienation of property.

Even absent *Quanta*, the question of whether the authorized foreign sale of a patented good exhausts patent rights therein would be important. Characterizing patent law as "domestic" hardly answers the question; this Court must determine the extent of rights granted thereunder.[5]

II. *QUANTA* DID INVOLVE FOREIGN SALES.

Fujifilm argues (Br. in Opp. 19–20) that *Quanta*, *supra*, did not involve sales made abroad. A brief recently filed in this Court by a former U.S. Solicitor General proves otherwise.

In *Costco*, *supra*, this Court received the *amicus* brief of Intel Corporation, the licensee that made and sold the patented chipsets in *Quanta*. As Intel observed, "This Court unanimously applied the patent exhaustion doctrine in *Quanta* even though *the bulk of goods at issue were manufactured and sold outside the United States*." Br. for Intel Corp. as *Amicus Curiae* Supporting Pet'r at 14–15, *Costco*, No. 08-1423 (U.S. July 9, 2010) (emphasis added). Intel noted that this Court and the Federal Circuit were aware of such foreign sales, and criticized the Federal Circuit's decision in *this* case for suggesting otherwise:

> The Federal Circuit has attempted to reconcile extraterritoriality-based limi-

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[5] Foreign courts have also addressed international exhaustion under their patent laws. *See generally* Kobak (reviewing Japanese and European cases).

> tations with *Quanta* by asserting that *Quanta* "did not involve foreign sales." *Fujifilm* [*v. Benun*], 605 F.3d at 1371. **This factual claim is incorrect**: Before the Federal Circuit, LGE had argued that the district court erred in failing to "restrict its ruling to U.S. sales," noting that "[a] significant portion of the chips Intel sells are manufactured and sold abroad." This Court was "aware that some sales under the license agreement were made overseas," and indeed LGE expressly argued in *Quanta* that "Intel Products would not infringe the patents if they were sold overseas." That this Court was "aware of foreign sales of the Intel parts; yet declined to limit its holding to sales in the United States, suggests that interpreting *Quanta* so as to impose such a limitation would be incorrect."

Br. for Intel Corp. at 18–19 (emphasis added) (citations omitted). Obviously, as the party that sold patented goods in *Quanta*, Intel has first-hand knowledge that those goods were largely sold abroad, and that *Quanta* effectively held that such foreign sales exhausted the patentee's rights to control goods.

Although the goods in *Quanta* were largely sold abroad, this Court's formulation of the exhaustion doctrine there makes no explicit mention of that fact. Intel's brief suggests the reason:

> There was no need for this Court to restrict its reasoning in *Quanta* to goods manufactured or sold domestically for a simple and obvious reason: Applying the exhaustion doctrine to goods manufactured and sold abroad "does not amount to giving extraterritorial effect to the patent law.

Br. for Intel Corp. at 19 (citation omitted).

If this Court intended *Quanta* to embrace patent exhaustion by reason of the authorized sale of patented goods abroad, then it could summarily vacate and reverse the Federal Circuit's decision below, which appears predicated on a misstatement of *Quanta*'s factual underpinnings.[6] Fujifilm's brief concedes (Br. in Opp. 19–20) that this Court knew *Quanta* involved foreign sales.

Whether the locus of the authorized sales was an issue in *Quanta,* it clearly is outcome-determinative here. If this Court intended *Quanta* to be an all-encompassing exhaustion rule, applied without regard to the locus of the patent-exhausting "first sale," then this Court should summarily vacate and reverse the Federal Circuit's decision. Alternatively, if the locus is material to exhaustion, the Petition should be granted to explore and to clarify this ques-

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[6] Summary reversal would demonstrate disapproval of the Federal Circuit's 2001 decision in *Jazz Photo, supra,* which imposed a strict territorial exhaustion rule, and fulfill one commentator's vision that "with scant basis in precedent and an even scantier *ratio decidendi*—and with an outcome that seems at least superficially disjunctive with apparent national policy interests—*Jazz Photo* will simply prove to be an unstable, sometimes circumvented, and relatively short-lived decision." Kobak, *supra,* at 15.

tion of fundamental importance to patentees, licensees, retailers, and consumers.

This case offers this Court perhaps its only chance to address this issue. Unlike trademark and copyright cases, which can originate from any circuit court, patent issues are handled exclusively by the Federal Circuit. Having ruled that the United States imposes a strictly territorial patent exhaustion rule, even post-*Quanta*, the Federal Circuit likely will dispose summarily of any future appeal challenging this view. This case is the appropriate vehicle to address the issue.

CONCLUSION

The Petition for a Writ of Certiorari to the U.S. Court of Appeals for the Federal Circuit should be granted.

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